LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
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FISCAL IMPACT STATEMENT

LS 7927
BILL NUMBER: HB 2023

DATE PREPARED: Jan 21, 1999
BILL AMENDED:

SUBJECT: Emissions allowance tax credit.

FISCAL ANALYST: Brian Tabor
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FUNDS AFFECTED: **X** **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides an income tax credit for taxpayers purchasing, selling, or otherwise using federal emission allowances. It provides that the tax credit is provided only for allowances purchased for more than $100. The bill also provides that the tax credit may not exceed $5,000,000 for a taxpayer in a taxable year.

Effective Date: January 1, 2000.

Explanation of State Expenditures: This bill would provide a tax credit for the use of emissions allowances. The Department of Revenue (DOR) would have to develop forms for the reporting of this credit, but would be able to absorb the related expenses of processing, printing, and computer programming within its current budget.

Explanation of State Revenues: This bill provides an income tax credit for taxpayers purchasing, selling, or otherwise using federal emission allowances. An "emissions allowance" is the authorization allocated to an electricity producer to emit one ton of sulphur dioxide (SO_2) during a given year or any year thereafter. No utility in Indiana currently uses emissions allowances. However, utilities may need to use allowances in the future as acceptable levels of SO_2 emissions will be reduced by more than 50% by the year 2000.

The amount of credit allowable under the bill is equal to:

(1) the tons of coal produced in Indiana that are sold and shipped by a taxpayer; multiplied by
(2) 0.015; multiplied by
(3) the actual average price paid per ton for allowances required to meet the limitations of the Clean Air Act; multiplied by
(4) 0.95.

Indiana produces approximately 34 million tons of coal each year. Currently, emissions allowances are sold for approximately $105 per ton. The $105 estimate was based on the average price observed each month from June 1997 to May 1998 as reported to the Environmental Protection Agency by three SO_2 permit brokers. The price of the allowances is determined through the buying, selling, and trading of allowances on a national level.

Based on the above formula, the maximum credit allowable under this proposal would equal $50,872,500 (34 million x 0.015 x $105 x 0.95). The actual impact of this proposal will depend on the number of emissions allowances needed and used by Indiana utilities, as well as the number of tons of coal produced. Since this proposal requires the credit to apply only to allowances sold for at least $100, no credits would be provided if the market price falls below $100.

The credit may be applied against the taxpayer's gross income tax, adjusted gross income tax, or supplemental net income tax liability and may not exceed $5,000,000 for a single taxpayer in a taxable year. The taxpayer may not carry excess credit over to the following taxable year, and carrybacks or refunds of unused credit would not be permitted. State revenues could be reduced by credits granted under this bill beginning in FY 2001. Income tax revenue is deposited in the General Fund and the Property Tax Replacement Fund.

There are only three utilities (taxpayers) that currently use Indiana coal: Indiana Power and Light, PSI Energy, and Southern Indiana Gas & Electric Company. (Northern Indiana Public Services Company is an occasional purchaser of Indiana coal.) If three utilities were eligible for this credit, the potential impact of this bill would be an annual $15,000,000 reduction in tax revenue beginning in FY 2001.

<u>Explanation of Local Expenditures:</u>

<u>Explanation of Local Revenues:</u>

<u>State Agencies Affected:</u> Department of Revenue.

<u>Local Agencies Affected:</u>

<u>Information Sources:</u> Jack McGriffin, Executive Assistant, Department of Natural Resources, (317) 232-1551; Tom Leas, Department of Commerce, Program Coordinator, (317) 232-8945; Nat Noland, Indiana Coal Council, (317) 638-6997; US Environmental Protection Agency (http://www.epa.gov); Russ Abrams, Director, Tax Policy Division, DOR, (317) 232-2104.